

With just four more business days until the next OCR decision, we look at what the wholesale money markets are signalling

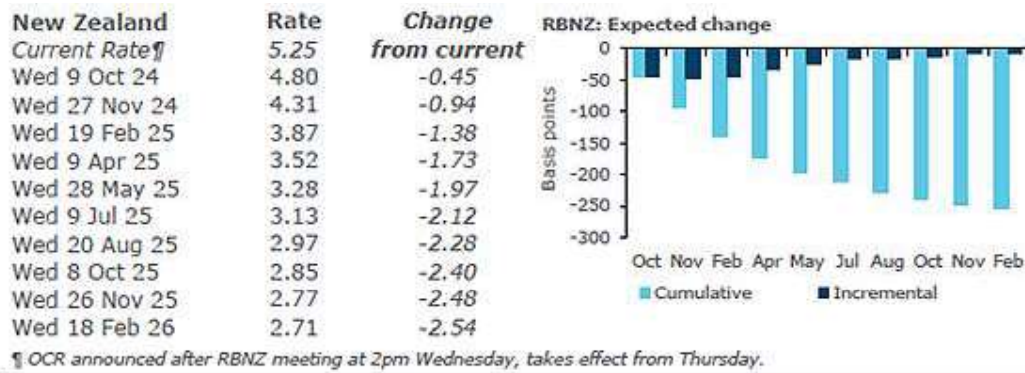
3rd Oct 24, 9:54am by [David Chaston](#)



Wholesale interest rate changes are still moving fast, even if the direction is the same - down.

This is an update, four working days ahead of the upcoming Official Cash Rate (OCR) review from the Reserve Bank next Wednesday, October 9.

Wholesale money markets are now pricing in 45 basis points of a cut then.



And another almost 50 basis points at the November 27 OCR review and full Monetary Policy Statement.

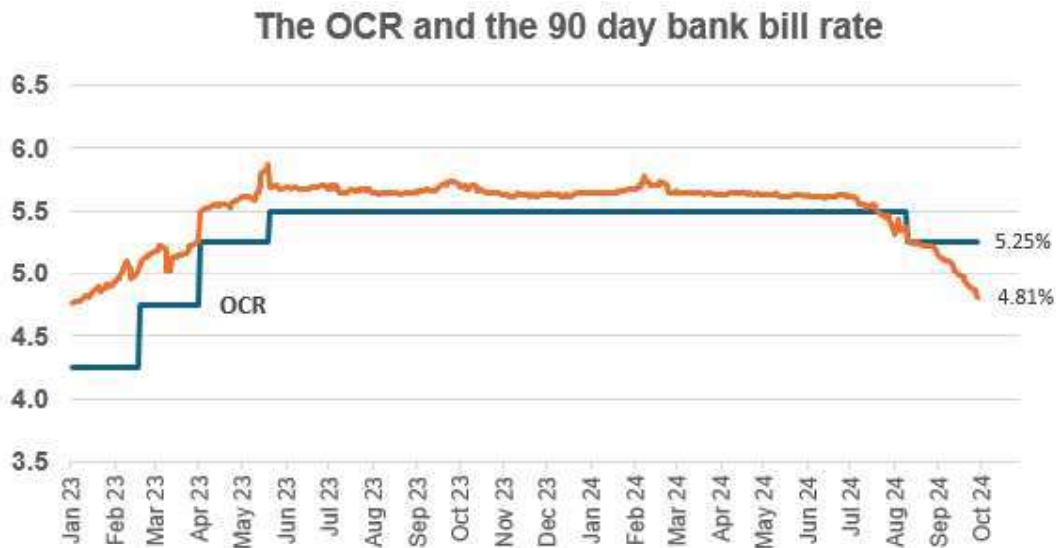
How Stimulus Blitz Sparked Optimism in China

Without these cut levels delivered, there are likely to be substantial financial market reactions for the required reassessments.

With them delivered, the current 5.25% OCR [could be 4.25% by Christmas](#).

But there is more to financial markets than changes to the overnight indexed swap (OIS) implied rates.

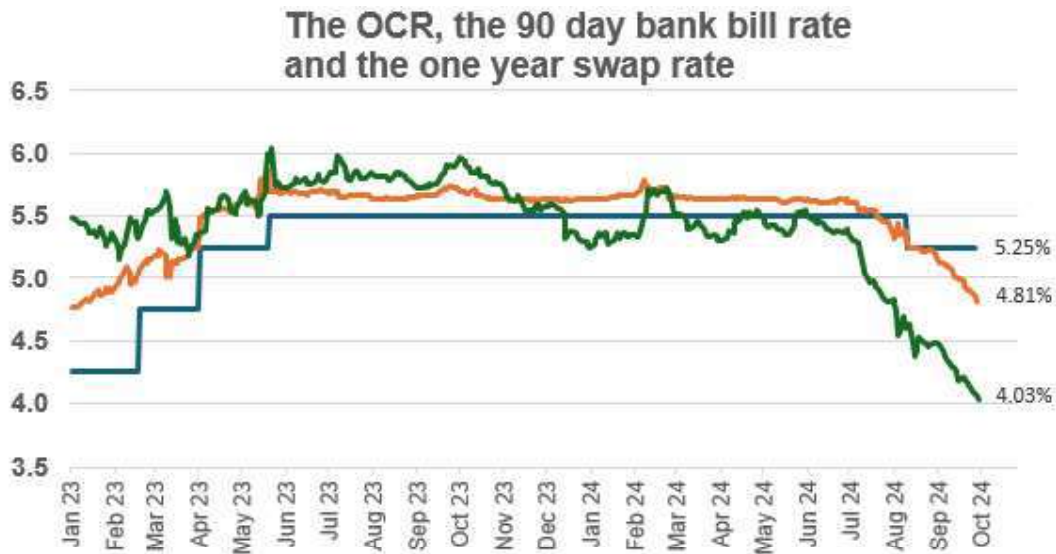
The 90 day bank bill rate, which 'usually' runs at a premium to the OCR, has now turned sharply negative.



That difference today is 44 basis points.

The story is largely the same if we add the one-year swap rate to the analysis, the one swap rate that is influenced by OCR expectations.

But this shows an even fiercer retreat.



Banks as receivers are finding payers willing to offer sharply lower rates in these swap markets, and that underpins their ability to fund lower retail mortgage rates. (More on the theory and practice [here](#).)

Over the past year, the one year swap premium to the OCR has shifted from about 75 basis points, to 25 basis points, then to 0 basis points, and now to suddenly minus 125 basis points.

The Reserve Bank's Monetary Policy Committee will make its decisions based on the economic data they see for the New Zealand economy, and their judgements about the next few years, especially about inflation prospects.